

ALASKA STATE LEGISLATURE
HOUSE SPECIAL COMMITTEE ON WAYS AND MEANS

April 13, 2021

11:34 a.m.

MEMBERS PRESENT

Representative Ivy Spohnholz, Chair
Representative Adam Wool
Representative Andy Josephson
Representative Calvin Schrage
Representative Andi Story
Representative Mike Prax
Representative David Eastman

MEMBERS ABSENT

All members present

COMMITTEE CALENDAR

HOUSE BILL NO. 165

"An Act making a special appropriation to the Alaska permanent fund; and providing for an effective date."

- HEARD & HELD

HOUSE JOINT RESOLUTION NO. 1

Proposing amendments to the Constitution of the State of Alaska relating to the Alaska permanent fund and to appropriations from the Alaska permanent fund.

- HEARD & HELD

PREVIOUS COMMITTEE ACTION

BILL: HB 165

SHORT TITLE: APPROP: EARNINGS RESERVE TO PERM FUND

SPONSOR(s): REPRESENTATIVE(s) KREISS-TOMKINS

04/07/21	(H)	READ THE FIRST TIME - REFERRALS
04/07/21	(H)	W&M, FIN
04/13/21	(H)	W&M AT 11:30 AM DAVIS 106

BILL: HJR 1

SHORT TITLE: CONST AM: PERMANENT FUND; POMV;EARNINGS

SPONSOR(s): REPRESENTATIVE(s) KREISS-TOMKINS

02/18/21	(H)	PREFILE RELEASED 1/8/21
02/18/21	(H)	READ THE FIRST TIME
02/18/21	(H)	SPONSOR SUBSTITUTE INTRODUCED
02/18/21	(H)	READ THE FIRST TIME - REFERRALS
02/18/21	(H)	STA, JUD, FIN
03/10/21	(H)	W&M REPLACES STA REFERRAL
03/10/21	(H)	BILL REPRINTED
04/13/21	(H)	W&M AT 11:30 AM DAVIS 106

WITNESS REGISTER

REPRESENTATIVE JONATHAN KREISS-TOMKINS
 Alaska State Legislature
 Juneau, Alaska

POSITION STATEMENT: Introduced HB 165, as the prime sponsor.

ANGELA RODELL, Chief Executive Officer
 Alaska Permanent Fund Corporation
 Juneau, Alaska

POSITION STATEMENT: Provided invited testimony during the hearing on HB 165.

REPRESENTATIVE JONATHAN KREISS-TOMKINS
 Alaska State Legislature
 Juneau, Alaska

POSITION STATEMENT: Introduced SSHJR 1, as the prime sponsor.

IAN LANG, Executive Director
 Institute of the North
 Anchorage, Alaska

POSITION STATEMENT: Provided a PowerPoint presentation, titled "HJR 1," dated 4/13/21.

ANGELA RODELL, Chief Executive Officer
 Alaska Permanent Fund Division
 Juneau, Alaska

POSITION STATEMENT: Provided invited testimony during the hearing on SSHJR 1.

ALEXEI PAINTER, Director
 Legislative Finance Division
 Juneau, Alaska

POSITION STATEMENT: Answered questions during the hearing on SSHJR 1.

ACTION NARRATIVE

[11:34:35 AM](#)

CHAIR IVY SPOHNHOLZ called the House Special Committee on Ways and Means meeting to order at 11:34 a.m. Representatives Wool, Josephson, Schrage, Story, Prax, and Spohnholz were present at the call to order. Representative Eastman arrived as the meeting was in progress.

HB 165-APPROP: EARNINGS RESERVE TO PERM FUND

[11:35:40 AM](#)

CHAIR SPOHNHOLZ announced that the first order of business would be HOUSE BILL NO. 165, "An Act making a special appropriation to the Alaska permanent fund; and providing for an effective date."

[11:35:54 AM](#)

REPRESENTATIVE JONATHAN KREISS-TOMKINS, Alaska State Legislature, prime sponsor, introduced HB 165. He explained that the proposed legislation was a vehicle for contemplating the transfer of money [\$4.35 billion] from the earnings reserve account (ERA) to the principal of the Alaska permanent fund to be protected in perpetuity for future generations of Alaskans and from legislative spending. He noted that he had introduced similar legislation last year; further, that this notion had been implemented in past budget cycles via amendments to the operating budget, which were bipartisan, bi-caucus, and bicameral. He stated that as the bull market continued, he wanted to propose HB 165 as a vehicle for exploring another transfer from the ERA to the principal - especially given the legislature's "pent up budget angst" due to the drainage of the state's savings accounts. Consequently, he believed that the ERA was at risk more than ever before of being overspent - much like the other accounts that the legislature had at its disposal over the last decade. He concluded that the proposed legislation would be a mitigative measure against overspending.

[11:38:11 AM](#)

CHAIR SPOHNHOLZ pointed out that the bill contained only three sections.

[11:38:21 AM](#)

REPRESENTATIVE KREISS-TOMKINS confirmed. He noted that the bill proposed a transfer of \$4.35 billion, which he characterized as a "Lorem Ipsum," or placeholder, value. He said that either Legislative Finance Division (LFD) would put forward a number or he would defer to the will of the committee. He believed that an appropriate amount was a figure that would leave three times the 5 percent POMV [percent of market value] draw in the ERA.

[11:40:00 AM](#)

REPRESENTATIVE KREISS-TOMKINS provided a sectional analysis of the bill [included in the committee packet], which read as follows [original punctuation provided]:

Sec. 1 \$4,350,000,000 is appropriated from the Earnings Reserve Account to the

Sec. 2 The appropriations made in Section 1 do not lapse.

Sec. 3 There is an immediate effective date.

REPRESENTATIVE KREISS-TOMKINS surmised that almost all [legislators] shared the goal of protecting and growing the permanent fund. He believed that the countervailing consideration was that if there were a market downturn, the balance in the ERA could diminish quickly leaving the legislature in a tough situation. However, he pointed out that even without a transfer of funds, that risk was always present under the current structure of the fund. He concluded that it would be a calculation of risk versus benefit for the legislature to keep in mind.

[11:42:40 AM](#)

CHAIR SPOHNHOLZ opened invited testimony.

[11:43:02 AM](#)

ANGELA RODELL, Chief Executive Officer, Alaska Permanent Fund Corporation (APFC), stated that this idea was one that legislators had done throughout the history of the permanent fund. She reported that more than one-third of the current principal was derived from special appropriations, which indicated their value to the fund. She emphasized that APFC's Board of Trustees recommended leaving a portion in the ERA to serve as a buffer in the event of market fluctuations. The

buffer, she said, was ideally three to four times any draw amount, which the proposed legislation would conform to.

[11:44:29 AM](#)

REPRESENTATIVE JOSEPHSON expressed concern about the statement of "three to four times" [the annual draw], as those were two "very different" amounts. He believed that APFC had voiced a preference of four times in previous testimony.

[11:44:47 AM](#)

MS. RODELL referenced Trustee Resolution 1804, which recommended four times - an amount that was reduced to three times in Trustee Paper 9. She acknowledged that there were differenced within the trustee's own recommendations; however, she indicated that she valued a resolution over a paper.

CHAIR SPOHNHOLZ inquired about the date of Trustee Paper 9.

MS. RODELL stated that the paper was issued in December 2019, whereas the resolution was from 2018.

[11:45:43 AM](#)

CHAIR SPOHNHOLZ sought to confirm that the paper reduced the recommended amount from four times to three.

MS. RODELL confirmed that the resolution was adopted in 2018; subsequently, the trustees embarked on a paper, which studied these issues. She reported that in lesson no. 5, "Reforming the Earnings Reserve Account," the trustees reduced it to three times.

[11:46:19 AM](#)

REPRESENTATIVE PRAX asked whether it made sense to reduce liquidity given the future outlook of the state.

[11:47:04 AM](#)

MS. RODELL said the bill would not reduce liquidity in the fund. She clarified that the bill would reduce the amount available for future appropriations.

[11:47:20 AM](#)

REPRESENTATIVE PRAX believed that because it would reduce the amount of cash available to spend, it would reduce liquidity. He opined that if an individual had lost his/her job, it would not make sense to move money from a savings account to a CD, as that person's future income was uncertain. Further, he shared his belief that the idea of preserving the permanent fund "as an end in itself" did not make sense. He pointed out that if Alaska had not received pandemic relief funding from the federal government, the legislature may have wanted to draw a considerable amount from the ERA. He added that the same situation could occur again, in which case, should the proposed legislation pass, "we would be sitting on \$60 or \$70 billion dollars and no ability to spend it." He questioned whether anyone had considered that.

[11:49:14 AM](#)

MS. RODELL noted that firstly, this movement of money would allow it to continue to be invested similar to the current principal; therefore, it would be generating future revenues for the state. She clarified that the transfer would not preclude some spending in the future. Secondly, she conveyed that this concept was more akin to a retirement account and the restrictions placed on spending from that account when the account holder knows they need to rely on that retirement account to deliver income for 20-plus years in the future. Thus, she likened the proposed transfer to putting additional money into a retirement account.

[11:50:41 AM](#)

REPRESENTATIVE STORY asked for the rationale behind changing the recommended amount.

[11:51:12 AM](#)

MS. RODELL explained that the ERA collected all the statutory income of the fund, therefore, realized gains or losses flow into that account. She reminded the committee that the principal did not grow because it didn't keep any of its gains, so inflation proofing ensured that the principal held onto its purchasing power. She added that inflation proofing and the POMV [draw] came out of the ERA, as well as the POMV [draw]. Further, investment, growth, assets, and risk all impacted the ERA. Thus, the recommended figure was associated with creating a buffer to allow for obligations to be met under the current construct.

11:52:48 AM

REPRESENTATIVE JOSEPHSON asked whether he should be concerned about unrealized earnings. He suggested that if the ERA was reduced in this fashion, it could change investment decisions or require liquidation that would not otherwise be necessary.

MS. RODELL stated that there would be a real concern if this bill had proposed draining the ERA to zero because the buffer would be gone. She said that's when realized gains become important because if they turned to unrealized losses it could result in a negative balance in the ERA.

11:53:58 AM

REPRESENTATIVE JOSEPHSON questioned whether a negative balance in the ERA was allowable.

MS. RODELL said that had never occurred. She explained that accounting and statutes were not aligned on this issue, as a negative balance was allowed under Governmental Accounting Standards Board (GASB) Rules, but not under a traditional budget reserve construct. She added that if that scenario were to occur, APFC would seek guidance from the Department of Law as to how to proceed. She expounded that from an investment perspective, an unrealized net loss could turn positive if the markets took a favorable turn, which was why a negative balance was allowed under an accounting construct.

11:55:14 AM

REPRESENTATIVE JOSEPHSON remarked:

When we're looking at this "three or four times" the draw test, is July 1 the wrong date to look at? Because I looked at July 1 last year, and it was either \$5.3 or \$5.5 billion, and that had been reduced, in my mind, by that part that was unrealized and that part that was anticipated for transfer.

REPRESENTATIVE JOSEPHSON asked whether he was thinking about it incorrectly.

MS. RODELL confirmed that Representative Josephson was thinking about it correctly. She stated that when the \$4 billion transfer for fiscal year 2020 (FY 20) was put into the budget

bill and adopted, it was "in the waterfall after all other things had been done." She said it was set at "up to" \$4 billion, which had been reduced by the governor's line-item veto power. Consequently, there was a recognition that the balance on the start of July 1 might be different from what it was when the appropriation language was adopted by the legislature.

[11:56:39 AM](#)

REPRESENTATIVE EASTMAN asked how the state's credit rating would be impacted by the proposed legislation should it pass.

[11:57:22 AM](#)

MS. RODELL noted that interactions with the credit rating agencies fell on the Department of Revenue (DOR). Nonetheless, she indicated that their reaction could be mixed. She speculated that the agencies would value the fact that money would be generating revenue for a longer timeframe. Alternatively, the ability to meet short-term obligations could be in question. She deferred the question to DOR.

[11:58:19 AM](#)

REPRESENTATIVE EASTMAN acknowledged that the bill would comply with the recommendation of leaving three times the draw amount in the ERA; however, he asked whether there was "something special" about this year and whether that recommendation would be ongoing.

[11:59:04 AM](#)

MS. RODELL confirmed that the recommendation was ongoing. She noted that APFC had not requested this appropriation; therefore, it was a policy decision to be made by the legislature.

[11:59:29 AM](#)

REPRESENTATIVE WOOL inquired about the flow of money to and from the ERA, as well as from the ERA to the corpus of the permanent fund. He considered a scenario in which there were several down years, surmising that ideally, there would be enough money in the ERA to "survive" the 5 percent POMV draw, which was approximately \$3 billion at present. He noted that three times that amount would be \$9 billion. Thus, if the ERA had a balance of \$9 billion or \$12 billion, he questioned whether a stock

market downturn could reduce the balance regardless of POMV draws.

MS. RODELL stated that a reduction in total size would be seen in the unrealized gain portion of the ERA. She recalled that on February 28, [2020], which corresponded to the most recent financial statement available, there was \$9.9 billion in realized earnings and \$3.1 in unrealized gain associated with ERA investments. She explained that any reduction would have impacted that \$3.1 billion.

REPRESENTATIVE WOOL considered a scenario in which the ERA balance was significantly exhausted due to down years. At that point, he asked whether APFC could decide to sell assets to realize a gain. Additionally, he sought to confirm that the earnings from that sale would be placed into the ERA.

[12:02:34 PM](#)

MS. RODELL confirmed that if an investment action was taken to realize any unrealized gains, they would move into the ERA.

[12:02:48 PM](#)

REPRESENTATIVE WOOL concluded that a sale [of assets] could "beef up" the ERA if the balance became extremely low.

[12:03:04 PM](#)

MS. RODELL answered that the ERA received regular cash income throughout the year. She reported that roughly \$1.2 billion to \$1.5 billion came from stock dividend payments, rentals, etcetera. The rest of the cash that flowed into the ERA, she said, was generated off commercial financial investment decisions, which were not made for any other reason. She shared her belief that APFC would not want to be put in a position where they had to make investment decisions for non-commercial financial reasons.

REPRESENTATIVE WOOL surmised that the recommended balance in the ERA was either \$9 billion or \$12 billion, as that would be three or four times the amount of the 5 percent POMV draw. However, as money trickled in, that figure could increase. He asked whether instead of providing for a draw amount, the solution would be to specify via statute that the ERA shall contain three times five percent of the value of the permanent fund. He questioned whether that statutory language would serve the same

purpose without the legislature having to transfer several billion over subsequent years.

[12:05:01 PM](#)

MS. RODELL stated that due to a Supreme Court ruling, any ERA movement required an active appropriation by the legislature.

[12:05:21 PM](#)

CHAIR SPOHNHOLZ recalled that Ms. Rodell had stated that in Paper 9, [APFC] reduced the proposed buffer from four times the annual draw to three times the annual draw. Further, as of the most recent reporting period, she reported that there was approximately \$16 billion in the ERA including unrealized gains of \$3.1 billion. She asked whether the paper specified that the recommended amount must be amongst realized gains.

[12:06:17 PM](#)

MS. RODELL shared her belief that the paper did not specify what the measurement was against. She understood that it was a recognition of the entire ERA - not just the realized portion.

CHAIR SPOHNHOLZ sought to confirm that theoretically, if the legislature were to transfer enough money into the corpus to allow for three times the annual draw in the ERA including unrealized gains, that would be consistent with paper 9 and prudent policy.

[12:07:13 PM](#)

MS. RODELL confirmed. She reminded the committee that the ERA did not have its own a standalone portfolio. Instead, it owned a proportionate share of every single asset, and the principal owned a majority of that asset. She explained that when the ERA was smaller in comparison to the principal, a proportionate amount of the unrealized gain also moved back over to the principal. Consequently, fluctuations were visible in the unrealized gains portion of the ERA due to the phenomenon of monthly reallocation based on the proportion of the ERA to the principal. She said when discussing a draw, it was not unreasonable to consider the balance referred to as "uncommitted realized" rather than the unrealized gain portion.

[12:08:59 PM](#)

CHAIR SPOHNHOLZ sought to clarify whether Ms. Rodell was suggesting that the unrealized gains should be excluded from the calculation or included in the calculation.

[12:10:55 PM](#)

MS. RODELL clarified that if \$4.3 billion was transferred from the ERA to the principal under the proposed legislation, half of the \$3 billion in unrealized gain would be transferred along with it. Therefore, after the transfer, the ERA would be reduced by more than \$4.3 billion. She reminded the committee that of the \$16.1 billion in the ERA, \$9.9 billion was uncommitted, \$3.1 billion was committed, and \$3.1 was unrealized gain. Thus, if \$4.3 billion was transferred from the uncommitted, a proportion of the unrealized gain would be moved as well.

CHAIR SPOHNHOLZ sought to verify that the unrealized gain was associated with the realized gain assets.

MS. RODELL answered yes. Further, she pointed out that unrealized gain was not cash - it was a figure that had to be shown on paper due to the financial accounting requirements.

[12:12:26 PM](#)

REPRESENTATIVE EASTMAN asked whether passage of the bill would impact APFC's ability to respond to higher inflation.

[12:12:54 PM](#)

MS. RODELL answered no.

[12:13:00 PM](#)

REPRESENTATIVE SCHRAGE questioned whether APFC ever changed its investment strategy in response to a need for liquidity given that the ERA was subject to any appropriation by the legislature.

[12:13:31 PM](#)

MS. RODELL stated that when the ERA was created, the statutes specified that it shall be invested like the permanent fund, which the trustees interpreted as the asset allocation of the principal. She added that nothing pertaining to APFC's mandate had changed, nor had they been directed to make a change. She

shared her belief that APFC could manage under the current statutes.

[12:14:19 PM](#)

CHAIR SPOHNHOLZ announced that HB 165 was held over.

HJR 1-CONST AM: PERMANENT FUND; POMV; EARNINGS

[12:14:32 PM](#)

CHAIR SPOHNHOLZ announced that the final order of business would be SPONSOR SUBSTITUTE FOR HOUSE JOINT RESOLUTION NO. 1, Proposing amendments to the Constitution of the State of Alaska relating to the Alaska permanent fund and to appropriations from the Alaska permanent fund.

[12:15:09 PM](#)

The committee took a brief at-ease.

[12:15:30 PM](#)

REPRESENTATIVE JONATHAN KREISS-TOMKINS, Alaska State Legislature, prime sponsor, introduced SSHJR 1. He explained that the joint resolution would constitutionally protect the real value of the Alaska Permanent Fund by "hardening" the percent of market value (POMV) structure. Essentially, it would convert the permanent fund into a traditional endowment, which most sovereign wealth funds abide by. Under a traditional endowment, a set amount of the market value would be taken out each year making it impossible to "dip in and take extra." He stated that another policy benefit of this approach would be the elimination of the division between ERA and principal, which would remove the risk of the ERA "bottoming out" in the event of a market correction. He continued to explain that there would be a steady and certain availability of cash for appropriation by the legislature each year. The structure, he said, was informed by trustee resolutions that had been passed through the years. He believed that adopting this structure would remove the permanent fund from the fracas of budget debates in the legislature. Additionally, it would force the legislature to balance the budget and make the hard decisions between more cuts and more taxes, he said.

[12:18:59 PM](#)

REPRESENTATIVE JOSEPHSON pointed out that typically, there was no discussion in committee of the strategy associated with the legislation. Nonetheless, he sought to confirm that the proposed joint resolution would not dissolve the PFD formula.

REPRESENTATIVE KREISS-TOMKINS confirmed [that the PFD formula would remain in statute.]

12:19:38 PM

REPRESENTATIVE JOSEPHSON asked for verification that under SSHJR 1, the ERA would no longer exist.

REPRESENTATIVE KREISS-TOMKINS confirmed. However, he emphasized that each year, money from the permanent fund would still be available for appropriation, which could then be used for dividends.

12:20:33 PM

REPRESENTATIVE JOSEPHSON surmised that supporters of the PFD formula would want to ride this resolution to its culmination. He asked whether the bill sponsor had considered that.

REPRESENTATIVE KREISS-TOMKINS sought to clarify the meaning of Representative Josephson's question.

12:21:25 PM

REPRESENTATIVE JOSEPHSON speculated that supporters of the dividend formula would feel some insecurities about the proposal. He asked how the bill sponsor would assuage those concerns.

CHAIR SPOHNHOLZ interjected to ensure that the invited testifiers had time to present. She noted that she had a particular interest in this topic of discussion, which would be addressed in further detail after the invited testimony.

12:22:52 PM

IAN LANG, Executive Director, Institute of the North, informed the committee that the Institute of the North was a nonpartisan thinktank founded by Governor Walter J. Hickel. Its mission, he said, was to ensure maximum public benefit from Alaska's shared resources. He stated that he was testifying today because the Alaska permanent fund, one of the state's common resources, was

at risk. Further, he shared his belief that the approach proposed in SSHJR 1 was the most important step towards ensuring a prosperous future for Alaska. He pointed out that no other state in the history of the United States has ever had what Alaska has, adding that the state's public sector could be endowed forever if legislature so chooses.

12:25:11 PM

MR. LANG directed attention to a PowerPoint presentation, titled "HJR 1" [hard copy included in the committee packet]. He began on slide 2, noting that the concept of a constitutional POMV was an old concept and one that, although unimplemented, was the most well studied, fully vetted, and widely supported idea in Alaska public policy. He added that it had always been the cornerstone of the state's future. In addition to good policy, he argued that SSHJR 1 was the single best strategy for resolving the larger fiscal challenge. He stressed that today's choices would have incalculable impacts on the state's future. He reported that [state] spending had been cut by 40 percent and \$17 billion had been spent in non-permanent fund savings to backfill the budget.

12:26:41 PM

MR. LANG continued to slide 3, emphasizing that continued failure to resolve Alaska's budget imbalance remained the single greatest threat to Alaska's future. He believed that [the legislature] needed to ask itself, "How does this end?" He urged committee members to reflected on lessons from the last seven years to help anticipate the most likely outcome. Slide 4 reiterated that so far, it had proved difficult for the legislature to broker a grand bargain to close the gap; consequently, year after year, they defaulted to the path of least resistance: use savings. He argued that as long as savings were accessible, savings would be used.

12:28:04 PM

MR. LANG advanced to slide 5, which highlighted that spending down the permanent fund was Alaska's default fiscal plan. He believed that the state was hurdling towards an unwanted outcome that people felt powerless to prevent because there had not been an effective vehicle for driving compromise. He continued to slide 6 and recalled the adoption of the statutory POMV formula several years ago, which marked a significant shift from a heavy reliance on oil revenue to effectively becoming an endowment

state, as 70 percent of the general fund revenue was coming from the permanent fund. Nonetheless, protections were not in place to ensure that the endowment functioned properly.

12:29:32 PM

MR. LANG turned to slide 7 and highlighted three problems with the status quo: technical, financial, and philosophical. Firstly, in regard to the technical challenges, he explained that the risk of being unable to make the POMV draw in one or more of the next 20 years was 50 percent under the current structure (slide 8). Secondly, he discussed the imprudence of unsustainable spending from the permanent fund. He reported that \$50 million in annual earnings was lost for every \$1 billion spent today. Accordingly, if the \$16 billion in the ERA were to be spent today, it would cost the fund \$800 million in earnings making the deficit that much greater. The third issue, he said, was what inspired the Institute of the North to get involved in this discussion. He opined that the permanent fund was an asset for all generations of Alaskans. It was conceived to be a vehicle for converting nonrenewable resources into renewable wealth for the state's residents, he said. Since the fund's creation, he reported that \$149 billion in oil revenue had been accrued, of which 87 percent was spent on infrastructure and other needs. He believed that spending down the permanent fund would be fundamentally unfair to Alaskans and a "tragic legacy."

12:33:29 PM

MR. LANG moved to slide 11 and conveyed that regardless of one's values or beliefs - be it maintaining public services, lower taxes, or protecting the dividend - everyone would benefit in the long-term from protecting the real value of the fund. Slide 12, which reiterated that the concept behind SSHJR 1 was an old idea, read as follows [original punctuation provided]:

- '80 - Recommended by Trustee Malone 9co-sponsor of PF legislation)
- '95 - Recommended by Long-Range Financial Planning Commission
- '96 - Recommended by PF Board of Trustees
- '99 - Approved by House of Representatives
- '00 - Trustees Resolution
- '03 - Trustees Resolution
- '04 - Trustees Resolution

- Resolutions of support from countless organizations

MR. LANG noted that the window for implementing this change was narrowing considerably.

[12:34:39 PM](#)

MR. LANG advanced to slide 13, reiterating the SSHJR 1 was good strategy in addition to good policy. He reminded committee members that the gap would close one way or another; further, he stressed that any deal made now would be better than a deal made in five or six years. He explained that this constitutional amendment would act as a deadline, after which overdraws from the ERA would no longer be allowed. Furthermore, the deadline would drive negotiations, he said. Slide 14 addressed timing, emphasizing that the future would become less bright every time this plan was delayed. He noted that the legislature could continue to work on a comprehensive fix; however, regardless of what else were to happen, he argued that the fund needed to be treated sustainably. Accordingly, he urged the passage of SSHJR 1.

[12:37:17 PM](#)

MR. LANG concluded by addressing constitutional changes on slide 15. He opined that some make the mistake of treating constitutional amendments similar to the conventional law-making process; however, he argued that it was different because a higher bar of consensus must be sought. He stated that the constitution was a sacred document that spoke to the values that constitute all Alaskans. In the context of the permanent fund, he challenged legislators to ask themselves whether they believed in sustaining the future of this state and whether they would deal with their own problems or pass them along to future generations. He believed that everyone would like to answer those questions the same way; nonetheless, they would be answered one way or another, either through action or inaction.

[12:38:57 PM](#)

ANGELA RODELL, Chief Executive Officer, Alaska Permanent Fund Corporation (APFC), stated that SSHJR 1 was incredibly important to the Board of Trustees. She reiterated that the idea was not a new one, as highlighted by Mr. Lang. She explained that a constitutional POMV would allow the fund to benefit all generations of Alaskans; provide a predictable payout; and

protect the fund's opportunity for real growth. Additionally, the payout would be compatible with the investment strategy and policies adopted by the Board of Trustees. She recalled that significant changes were made to accounting rules in 1997, which spurred the efforts by the trustees in the early 2000s. She said implementing a constitutional POMV, as contemplated in SSHJR 1, was something that the trustees supported and had supported for many years.

[12:41:33 PM](#)

REPRESENTATIVE WOOL inquired about the form of the prior resolutions that pertained to constitutionalizing the POMV.

[12:42:36 PM](#)

MS. RODELL said all the resolutions recommended a 5-year "smoothing," or average, of the market value and a 5 percent draw on the average market value. Therefore, SB 26 was consistent with the trustee's constitutional recommendation.

[12:43:03 PM](#)

REPRESENTATIVE WOOL believed that many legislators supported the statutory POMV in SB 26. He pointed out that presently, the state was in a unique position wherein the incoming revenue was paying for the budget; therefore, absent a PFD, budget and revenues were aligned. He said the issue was that the amount of the dividend had been determined by the legislature, as opposed to formula. He surmised that if a resolution were to constitutionalize a 5 percent draw, some people would also want to constitutionalize a dividend amount. He referenced one of the governor's proposed constitutional amendments, which would constitutionalize the 5 percent POMV draw, as well as a 50/50 split. He argued that such a distribution would leave the budget "short." He questioned how the dividend would fit in to this resolution and what the proposed solution might be.

[12:45:45 PM](#)

MR. LANG agreed that the dividend was at the heart of the politics surrounding this issue. He stated that the Institute of the North's coalition, which was composed of many significant organizations, had taken an agnostic stance on the dividend. He said he would support anything that two-thirds of the House would support. He reasoned that the agnostic stance was to avoid alienating people with different philosophies on the

dividend. He believed that no matter the outcome, some version of this proposal needed to move forward, as any version would be better than the alternative.

[12:47:16 PM](#)

REPRESENTATIVE EASTMAN referred to the language "designated by law" on page 1, line 9, of SSHJR 1. He remarked:

I'm seeing that under the current language, that that would apply to the principal. Now under this amendment, it seems like it would apply to the entire fund, which, if I'm looking at the verbiage, seems to be limiting decisions that the corporation might make that don't involve the principal.

REPRESENTATIVE EASTMAN asked Ms. Rodell to speak to that.

[12:47:52 PM](#)

MS. RODELL explained that under this construct, there would be no need to identify the principal, as everything would stay in a common fund. She stated that should SSHJR 1 pass, the permanent fund would become one fund without a principal or ERA.

[12:48:59 PM](#)

REPRESENTATIVE EASTMAN asked whether APFC would benefit from the language "designated by law" applying only to the principal.

[12:49:12 PM](#)

MS. RODELL said she did not understand the question. She explained that the existing constitutional amendment made the income available for spending. Initially, she said, the income flowed straight to the general fund unless otherwise provided by law. Later, legislation was implemented that created the ERA, which became the new receptacle. She added that if the ERA statutes were repealed, the income would be transferred in its entirety to the general fund, per the constitutional provisions.

MS. RODELL, in response to the same question from Representative Eastman, stated that the language continued to benefit APFC because current law allowed for investment under the prudent investor rule. She believed that there was value to retaining [the legislature's] capacity to direct the investment of the fund should it ever be necessary.

[12:52:15 PM](#)

CHAIR SPOHNHOLZ addressed the issue of the dividend and whether it needed to be referenced in the constitutional amendment. She asked whether the Institute of the North had conducted any polling to consider different strategies for passing a constitutional amendment. She emphasized the importance of viability in passing a constitutional amendment.

[12:54:25 PM](#)

MR. LANG answered no. He noted that the last polling conducted [by the Institute of the North] was in 2018. He stressed that regardless of someone's thoughts on the dividend or the structure of the constitutional amendment, preserving the dividend meant protecting the fund's real value. He reiterated that even if the dividend was not constitutionalized, the asset value that created the dividend would be protected.

[12:55:42 PM](#)

CHAIR SPOHNHOLZ asked whether the 2018 polling included testing with regard to constitutionalizing the dividend.

[12:55:54 PM](#)

MR. LANG stated that the 2018 polling was not specific to a constitutional amendment.

CHAIR SPOHNHOLZ asked whether the polling included any reference to the dividend.

MR. LANG answered yes; however, he pointed out that the conversation had shifted since then.

[12:56:21 PM](#)

REPRESENTATIVE EASTMAN directed attention to page 2, line 8, which specified that the unencumbered balance of the ERA would be deposited in the permanent fund and become part of the principal. He asked what would happen to the encumbered balance.

[12:56:56 PM](#)

REPRESENTATIVE KREISS-TOMKINS deferred to Mr. Painter.

12:57:29 PM

ALEXEI PAINTER, Director, Legislative Finance Division, said the encumbered balance would be the POMV draw and the amount for the Alaska Capital Income Fund from the Amerada Hess settlement [Alaska v. Amerada Hess]. He explained that those amounts would be transferred according to the existing schedule. He said that on June 30, there should be no encumbered funds left; however, if something failed to be transferred on its effective date, this language would ensure that the appropriation could still take place.

12:58:16 PM

REPRESENTATIVE EASTMAN referred to page 2, line 12, and asked when, historically, the legislature made decisions on appropriations for the fiscal year ending June 30, 2023.

12:58:40 PM

MR. PAINTER said it would typically be part of the budgeting process in calendar year 2022. He noted that supplemental budgets could be made through the end of the fiscal year in calendar 2023.

12:59:05 PM

REPRESENTATIVE EASTMAN pointed out that the constitutional amendment proposed by SSHJR 1 would not be placed before the voters until the November election in 2022, per Section 4 of the resolution; consequently, he asked how the outcome of that vote could be applied to the appropriation process in 2022.

12:59:39 PM

REPRESENTATIVE KREISS-TOMKINS acknowledged that he had contemplated that question personally. He believed it was a fundamentally solvable problem; however, it would be an exercise in conditional planning. He expressed his hope that organizations, such as the Institute of the North, would conduct polling to indicate the likelihood of ratification. He noted that if the legislature committed itself to a constitutional POMV, there could be a compromise made in which a certain amount of money in excess of the draw was taken out and set aside to provide a fiscal buffer for the legislature. Essentially, the

buffer would act as "transition money" to help the legislature ease into the new budgeting reality, he suggested.

[1:01:38 PM](#)

REPRESENTATIVE EASTMAN observed that the first five of the preceding six fiscal years were being considered in the calculation. He sought to clarify whether the present fiscal, which had not yet ended, should be included in that calculation. Additionally, he remarked:

Obviously, the first five of the six means you're not including the sixth, so if you have a down year, we don't include that until next year, but then if we have an up year following the down year, we include the down year, but we don't include the most recent up year, which is going to limit our ability to draw.

[1:02:29 PM](#)

REPRESENTATIVE KREISS-TOMKINS offered his understanding that the smoothing mechanism was relatively standard. Further, he believed that a five-year window was broad enough to sufficiently smooth any year-to-year budgeting volatility. Regarding the exclusion of the current fiscal year, he deferred to Ms. Rodell or Mr. Painter.

[1:03:46 PM](#)

MS. RODELL explained that the language in question was currently used in the POMV calculation under SB 26. She explained that it generated a smoothing effect in addition to removing uncertainty from the appropriation process with the use of the POMV. She indicated that it allowed the legislature to enter budget debates knowing exactly how much revenue was available to spend with regard to the POMV.

[1:05:38 PM](#)

REPRESENTATIVE WOOL referring to slide 11, recalled that Mr. Lang had stated that he was "agnostic" when it came to the dividend, as long as the POMV was constitutionalized. However, he expressed concern that the governor's proposed 50/50 split could not feasibly protect against higher taxes, protect the dividend, and protect services, as indicated on slide 11, while protecting the permanent fund. He worried that if 50 percent of the POMV were to go to dividends, it would create a larger

"hole" in state services, which would require a high tax compensate. He believed that at some point, the Institute of the North may have to take a stance on the dividend.

1:08:01 PM

MR. LANG acknowledged that the institute may need to take a position on the dividend eventually. In the meantime, he said, the goal was to make this a higher priority for the legislature and the public.

1:08:21 PM

REPRESENTATIVE PRAX opined that presently, there was less optimism about economic growth in Alaska and more concern about federal default. He questioned whether the Institute of the North had considered that.

1:09:49 PM

MR. LANG asked Representative Prax to clarify the meaning of "federal default."

REPRESENTATIVE PRAX suggested that there was increased concern about the federal government defaulting on its debt or hyperinflation, which had not been as concerning in 1976.

MR LANG answered no, the Institute of the North did not consider that in its analysis.

1:10:27 PM

REPRESENTATIVE PRAX shared his belief that if the fund was looked at as an endowment for government services, it would result in a substantial wealth transfer to the beneficiaries of those services at the expense of the people who were not availing themselves of those services.

CHAIR SPOHNHOLZ clarified that the proposed resolution was "silent" on the issue of the dividend.

REPRESENTATIVE PRAX agreed; however, he opined that [the issue of the dividend] would have to be resolved as part of this decision. He recalled that the dividend was not an "outright" part of the law that created it. Nonetheless, he believed that the dividend was the primary reason that the permanent fund was established.

CHAIR SPOHNHOLZ contended that the permanent fund was created in 1976 for the purpose of making a finite resource renewable. The dividend, she recalled, was added to statute in 1980. She emphasized that the dividend had not been part of the original constitutional amendment.

[1:13:20 PM](#)

REPRESENTATIVE KREISS, in response to Representative Prax, reiterated that the language in SSHJR 1 was agnostic on the dividend. He stated that if it were the wisdom of future legislators to spend 100 percent of the POMV draw on dividends, so be it, adding that in no way was the resolution meant to preclude the dynamic balance between legislative appropriation decisions and the voters who hold the legislators accountable. He expressed his concern that the legislature's default plan was to spend down state savings, which would result in a losing situation for everyone regardless of their different priorities.

[1:15:29 PM](#)

REPRESENTATIVE EASTMAN referred to page 1, line 6, and inquired about the sponsor's thoughts on expanding the annual resource revenues.

[1:16:18 PM](#)

REPRESENTATIVE KREISS-TOMKINS said he had never considered annexing a royalty expansion into the resolution. Philosophically, he said he was supportive of setting more short-term revenue aside for the long-term benefit. However, was unaware of any additional revenue streams of significance that could be annexed into the language on page 1, line 6. He further noted that the biggest lever for "short-term pain/long-term gain" was the annual draw. He said he would not be opposed to a more conservative annual draw, which according to literature on the subject, would be more responsible and make the long-term future of the state objectively brighter.

[1:18:02 PM](#)

REPRESENTATIVE SCHRAGE asked whether anything would preclude future legislators from making an additional contribution to the fund.

[1:18:11 PM](#)

REPRESENTATIVE KREISS-TOMKINS answered no. Additionally, there was nothing to preclude future legislators from spending a value less than 5 percent of the market value.

[1:18:27 PM](#)

CHAIR SPOHNHOLZ announced that SSHJR 1 was held over.

[1:20:09 PM](#)

ADJOURNMENT

There being no further business before the committee, the House Special Committee on Ways and Means meeting was adjourned at 1:20 p.m.